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GAIN Report #HU1018

## Hungary

### Food Processing Ingredients Sector

### Report

### 2001

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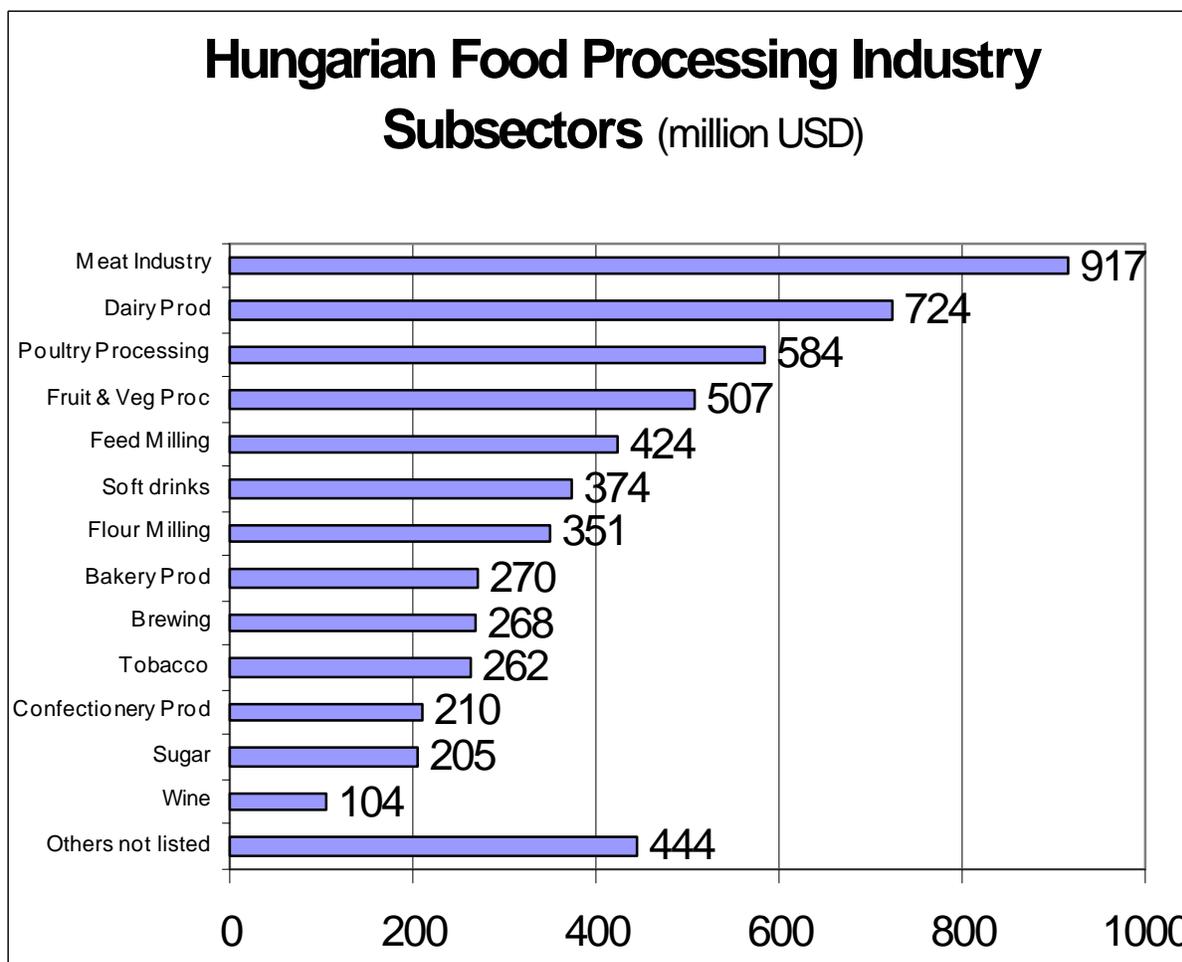
**Report Highlights:** After an early 1990s drop in consumption, there is room for growth in Hungary's food processing sector. U.S. exports mainly compete with EU and neighboring country suppliers. The best sales prospects are for nuts, meat, petfood, distilled liquors and miscellaneous grocery items. Overall, U.S. food imports account for 7-9 % of the total market for inputs.

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Includes PSD changes: No  
Includes Trade Matrix: No  
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## I. Market Summary

The production value of the food processing industry was \$5.6 billion in 1999, which is a 3.7 percent increase over 1998 (in constant dollars). The growth was even higher in 2000 - 5.9 percent. The food processing sector accounted for 15 percent of the general manufacturing sector in 2000, a decline from the 25 percent share in 1990. Some important food processing sub-sectors such as petfood, pasta or honey have been combined under the category 'other.'



The self sufficiency of the total food /beverages sector is 120 percent, indicating a strong export orientation. The following table indicates that the share of imports in the supply of processed foods (import penetration) is relative low. Imports are significant in the supply of sweets, confectionary and dairy products (there is a need for wide variety of products in this category), and fruits/vegetable (often out of season produce).

<b>Food Processing Industry Sub-Sector</b>	<b>Export Orientation</b>	<b>Import Penetration</b>
Meat Industry	33.3 %	5.4 %
Dairy	15.3 %	6.2 %
Poultry Processing	42.9 %	0.9 %
Fruit and Vegetable Processing	52.0 %	12.4 %
Brewing	0.7 %	3.0 %
Soft Drinks	8.2 %	2.5 %
Tobacco Industry	Negligible	2.0 %
Sweets and Confectionary	17.2 %	22.8 %
Wine	62.0 %	2.7 %
Feed Milling	23 %	52.0 %
Flour Milling	13.5 %	1.5 %

For many sub-sectors, imports of consumer-oriented products are not high but the importation of raw materials to manufacture these products is often considerable. Soybean and fish meal imports (feed milling), almonds and raisin imports (sweets and confectionary), pork and tobacco imports are all examples of inputs with a high percentage of imports.

The number of food processing firms was 8,361 in 1999. However, almost 90 percent of these processors employ less than 11 people, while bigger companies, employing more than 300, account for 67 percent of the sector's total output.

Privatization of the food processing sector has been completed and government ownership accounts for only a few percent of production. Multinational companies dominate the sweets, sugar, brewing, soft-drink, vegetable oil and tobacco industries. Processors of meat, poultry, and dairy and the canning industry form the biggest sub-sectors. There are, however, wide extremes in size and levels of technology among firms.

All food products, excluding fresh products, must be registered and approved by the Hungarian food testing institute - OETI (see references in the last chapter of the report). Testing must be completed before the product is allowed on the market. Registration costs approximately HUF 120,000 per product (about \$560). If the product is in accord with Hungarian food regulations, it then receives a number (so called "OETI number"), under which it can be marketed for a three-year time period. After this period has expired, the product must be retested and issued a new number. The OETI number is always indicated on the product label.

### Advantages and challenges faced by the U.S. exporters

Advantages	Challenges
Increasing consumption	Domestic food processing is very competitive
Western consumption patterns are emerging	Strong European competition
There is growth potential in the development of some subsectors and commodity groups, especially in the low consumption groups, the upcoming young generation, and the urban population	Slow increase of real incomes
There are unexplored commodity areas	Bureaucratic import administration (mandatory product registration)
Domestic industry needs certain ingredients	Many traders are inexperienced in conducting business with foreign companies
Purchases by tourists and transit shoppers are large and growing	High transport costs
Several experienced, multinational retailers	Relatively small delivery volumes, high transport costs
Innovative products and packaging are appreciated	Hungarian consumers are unfamiliar with the value of many U.S. products
Importers are open to new products and technologies and have been willing to participate in U.S. sponsored events (e.g. the Cochran Fellowship Program and visits to U.S. food shows)	Importers have difficult time accessing reasonable local finance terms
Tariffs under free trade agreement may make US products less competitive	Lower WTO tariff quotas are available for US exporters

## II. Road Map for Market Entry

### A. Entry Strategy

There is no one way. Bigger and multinational firms source their raw materials/food ingredients directly, either in cooperation with their mother company or through their own trade office. Other companies work with import agents or importer/distributors.

Visits to processors (or seminars for processors) are vital to show new product or technical (self

life, packaging, coloring, etc.) trends in the U.S..

It is particularly important to educate buyers about quality standards, grades and different uses of U.S. ingredients. This information is not yet well known in eastern European countries. New recipes and innovative products often originate from the United States, but their introduction is a slow process that can be accelerated and targeted.

## B. Market Structure

Channels by which imports reach the end user:

**Direct imports** from the U.S. producer (or U.S. export trader): Large, multinational firms, usually import raw materials directly on an ongoing basis and do not maintain large inventories. For example cigarette companies import leaf tobacco or meat processors importing certain meat cuts from their U.S. counterparts.

American products are imported **through European importers-distributors** and the market is served by well established Austrian, German, and other EU suppliers. In some cases, the food processor purchases semi-finished U.S. products from European sources, such as roasted U.S. peanuts from Italy for a chocolate factory. Firms do import directly but usually only after achieving a large enough sales volume to justify the costs of a importing independently.

Purchases through **local importers** :

Firms having no import trade unit use import brokers or agents. For example, raisins are imported by a specialized trading company which supplies large granola-bar and breakfast cereal producers as well as family operated confectionaries. In this case, the trading company may be a potential buyer-distributor for related U.S. products such as dried fruit, baking additives, confectionary additives etc. Some of the bigger U.S. ingredients manufacturers (sweeteners etc.) have established their own import companies in Hungary to distribute their products.

Only smaller food processors buy import ingredients through the **importer - wholesaler** steps. Most importers are distributors themselves and the size of Hungary (about the size of the State of Indiana) makes it possible for processors to buy directly from the importer.

The distribution chain between manufacturers and consumers is getting shorter in Hungary. Dominate supermarkets and hypermarkets purchase directly from processors or through their purchasing companies. These purchasing units of retailers frequently use outsourcing for both branded and store brand products. From the other direction, cash and carry companies substitute as wholesalers in supplying small retailers and small institutions.

In the hotel, restaurant, and institution (HRI) area, processors deliver directly to major buyers, while smaller purchases are handled by wholesalers, cash and carry warehouses, and club stores. There is a small but increasing food service sector. These companies are traders specializing in supplying the HRI market and, in addition to their importer and distributor functions, they are often producers of semi-finished and finished food.

## C. Company profiles

The following table shows the major food industry companies by sub-sectors, and the total number of firms (having more than 10 employees) from the given sub-sector (in parentheses). The share of “major” firm’s total sales within the subsector often indicates a high level of concentration.

### Overview of Hungary’s Food Processing Sector 1999

<b>Food Processing Industry Sub-Sector</b>	<b>Number of Major Firms (Number of total firms)</b>	<b>Sales in US Dollars of Major firms (Sales in subsection) \$ million/1999</b>	<b>Estimated Growth (percentage over previous year)</b>
Meat Industry	6 (48)	492 (917)	12.5
Dairy	7 (27)	542 (724)	1.1
Poultry Processing	9 (32)	491 (584)	8
Fruit & Vegetable Processing	8 (160)	230 (507)	6.3
Baked Goods	6 (844)	43 (270)	2.7
Brewing	3 (34)	231 (268)	7.1
Soft Drinks	8 (67)	311 (374)	15.1
Tobacco Industry	3 (8)	175 (262)	-4.4
Vegetable & Animal Oils and Fats	2 (9)	189 (204)	4.2
Sweets and Confectionary	5 (522)	197 (210)	-10.9
Wine	5 (37)	85 (104)	44.8
Other	N/A	(1220)	N/A

TOTAL	N/A	(5644)	3.7
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### Profiles of Major Food Processing Companies in Hungary

<u>Company Name &amp; Type of Food Processor</u>	<u>Food Sales 1999</u> US\$ million	<u>% HUN Ownershi p</u>	<u>End - Use Channel</u> (Retail, HRI, Food Service, Processing)	<u>Production Location</u> (domestic, offshore, JV)	<u>Procurement Channel</u>	<u>Exports % of Turnover</u>
<u>Unilever</u> (Ice cream, deep frozen, vegetable oil products)	<u>119.3</u>	<u>0</u>	<u>Retail, HRI</u>	<u>HUN,</u> several EU countries	<u>Direct,</u> <u>Import Agents</u> <u>Distributors</u>	<u>25</u>
<u>Nutricia</u> (dairy)	<u>172.5</u>	<u>NA</u>	<u>Retail</u>	<u>HUN, Netherlands,</u> <u>Germany</u>	<u>Direct,</u> <u>Import Agents</u>	<u>6</u>
<u>Cereol</u> (vegetable oils)	<u>160.1</u>	<u>0</u>	<u>Retail, HRI,</u> <u>Food service</u>	<u>HUN, Italy, Spain</u>	<u>Direct</u>	<u>41.9</u>
<u>Hajdú Bét</u> (poultry)	<u>135.6</u>	<u>100</u>	<u>Retail, HRI</u>	<u>HUN</u>	<u>Direct</u>	<u>48</u>
<u>Pick</u> (meat)	<u>115.8</u>	<u>100</u>	<u>Retail</u>	<u>HUN</u>	<u>Direct</u>	<u>40</u>
<u>Coca-Cola Hungary</u> (soft drinks)	<u>94.1</u>	<u>0</u>	<u>Retail, HRI</u>	<u>HUN, Australia</u>	<u>Direct</u>	<u>0.2</u>
<u>Nestlé Hungary</u> (cocoa/chocolate and confectionery)	<u>82.7</u>	<u>0</u>	<u>Retail</u>	<u>HUN, Switzerland,</u> <u>US</u>	<u>Direct,</u> <u>Import Agents</u>	<u>16</u>
<u>Sága Foods</u> (poultry)	<u>75.3</u>	<u>0</u>	<u>Retail,</u> <u>Food Service</u>	<u>HUN</u>	<u>Direct,</u> <u>Import Agents</u>	<u>37.8</u>
<u>Mizo Baranyatej</u> (dairy)	<u>72.6</u>	<u>67</u>	<u>Retail</u>	<u>HUN</u>	<u>Direct,</u> <u>Wholesalers</u>	<u>12</u>
<u>Délnús</u> (meat)	<u>65.9</u>	<u>100</u>	<u>Retail</u>	<u>HUN</u>	<u>Direct</u>	<u>26</u>
<u>Dreher</u> (beer)	<u>65.8</u>	<u>0</u>	<u>Retail, HRI</u>	<u>HUN</u>	<u>Direct,</u> <u>Import Agents</u>	<u>0</u>
<u>Borsodi</u> (beer)	<u>65.8</u>	<u>9.21</u>	<u>Retail, HRI</u>	<u>HUN</u>	<u>Direct,</u> <u>Import Agents</u>	<u>0</u>
<u>Agrana</u> (high fructose corn syrup)	<u>59.6</u>	<u>99</u>	<u>Processing</u>	<u>HUN, Belgium,</u> <u>Austria</u>	<u>Direct</u>	<u>13</u>
<u>Danone</u> (dairy)	<u>59.3</u>	<u>0</u>	<u>Retail</u>	<u>HUN, Poland</u> <u>France, Belgium</u>	<u>Direct, Imp.Agent</u> <u>Distributors</u>	<u>9.1</u>
<u>Ringa</u> (meat)	<u>60.6</u>	<u>100</u>	<u>Retail,</u> <u>Food service</u>	<u>HUN</u>	<u>Direct</u>	<u>43</u>
<u>Kraft Jacobs</u> <u>Suchard</u>	<u>55.9</u>	<u>0</u>	<u>Retail, HRI</u>	<u>HUN, Australia, US,</u> <u>Canada, Austria,</u>	<u>Direct,</u> <u>Import Agents</u>	<u>NA</u>

(sweets and coffee)				Germany		
<b>Pápai Hús</b> (meat)	<u>52.6</u>	<u>75</u>	<u>Retail, HRI</u>	<u>HUN</u>	<u>Direct, Wholesalers</u>	<u>34</u>
<b>Zwack</b> (alcoholic beverages, ethyl alcohol)	<u>49.2</u>	<u>0</u>	<u>Retail, HRI</u>	<u>HUN</u>	<u>Direct, Import Agents</u>	<u>2.2</u>
<b>Magyar Cukor</b> (sugar)	<u>56.6</u>	<u>65.38</u>	<u>Retail, Processing</u>	<u>HUN</u>	<u>Direct, Wholesalers</u>	<u>13</u>
<b>Gyulai Húskombinat</b> (meat)	<u>35.1</u>	<u>100</u>	<u>Retail</u>	<u>HUN</u>	<u>Direct</u>	<u>39</u>

#### D. Sector Trends

Sales to the food processing industry are driven on a general level by demographics, income, export opportunities (for inputs) and import competition. Hungary's population is slowly decreasing and growth tends to occur in two ways: increasing exports and increased sales as the result of growing disposable income. Domestic spending on food and beverages has slowly increased after reaching bottom in 1993. The increase in GDP has been about 4-5 percent in the last few years.

There are further long-term effects influencing the level and structure of food consumption:

##### Increased demands for convenience food

The variety and consumption of frozen, ready to (microwave) oven, and semi-finished food (sauces, complete menu mixes) has increased considerably. Changing lifestyles, urbanization, the increase in single person households, and the relatively low level of eating out all support this trend.

##### Healthy diet, organic food, health food, functional food

The growing consumption of fresh fruit and vegetables is the result of a better supply of winter/out season produce. The popularity of salads, breakfast cereals, seafood and low fat menus has risen in the last few years. Hungary is still more an exporter than consumer of organic food, but the domestic awareness and consumption is slowly increasing.

In the functional food category, vitamin enriched dairy products, cheese and bread are available at better supermarkets. Selenium and iodine supplement are used in salt, bread and beverages. The supply of multivitamin and trace element drinks and instant drinks is also high.

##### Increasing popularity of foreign cuisine

The Hungarian consumer is starting to be receptive to Chinese, Mexican, Tex-Mex, Mediterranean and other foreign cuisines. The number of restaurants offering ethnic food is increasing and the supply of ingredients, spices, condiments is growing rapidly. Big multinational food processors and imports usually serve this market.

### III. Competition

Hungary has a developed and export-oriented food processing sector. In many subsectors, domestic producers are very competitive, both for final products and ingredients (raw materials). Still, the volume of agricultural and food imports increased by about 50 percent over the last ten years. The main reasons for the increase is consumer demand for broader variety and continuous supply of seasonal produce; growing specialization and concentration of food processing in Hungary and surrounding countries; high export subsidies from the EU; preferential trade agreements with several countries (EU, CEFTA, Turkey, Israel), and the increasing presence of large multinational food processing companies.

Food ingredients and raw materials imported from the United States compete with domestic products and the imports from the EU countries (primarily Germany, Netherlands, Austria and Italy) and, especially for fruits and vegetable, neighboring countries such as Poland and Slovakia . U.S. food imports account for 7-9 percent of the total market for inputs.

The share of bulk products as a percentage of total imports is gradually decreasing and intermediate product imports are also slowly declining. Imports of consumer oriented products, forest products and fish/seafood products are growing.

### Competition at Food Processing Sub-Sectors

Meat Industry	The production of further processes products depends on the supply of domestic meat and in some years the EU is strong competitor. Canada is also a minor competitor.
Dairy	Dominated by domestic production and EU imports
Poultry Processing	Domestic production, based on U.S. genetics. In some years small imports from the United States.
Fruit&Vegetable Processing	Out season imports are dominated by EU, Israel, South Africa, South America. Strong U.S. share in raisins and almonds.
Baking	Domestic production and EU imports. U.S. snacks are competitive
Brewing	Taken over by Austrian, German and South African companies
Soft Drinks	Strong domestic production. Coca Cola and Pepsi are dominant
Tobacco Industry	Industry was privatized and is owned by multinational companies. U.S. leaf tobacco imports leads the sector
Vegetable&Animal Fats and Oils	Dominated by domestic production. Imports of professional-use shortening and baking margarine from the U.S. are growing.
Sweets and Confectionary	Strong domestic industry and imports from the EU. There are U.S. sales opportunities for artificial sweeteners, nuts, dried fruits and raisins

Wine	Strong domestic production. EU imports started only in the last few years. High tariffs stymie U.S. sales
Other	U.S. companies are strong in domestic production and imports of petfood

#### IV. Best Product Prospects

##### A. Products present in the market which have good sales potential

Almonds and raisins are two products where quality counts. High value food products need premium raw materials. The above products will gain market share from the cheap but low quality exports from Iran, Turkey and other Mediterranean countries. Sales of U.S. peanuts may be enhanced in the longer run by demands for better quality.

In some years, there is a market for pork and edible viscera.

In the snacks and sweets categories, the market is dominated by domestic products (both developed domestically and licenced) and imports from the EU. There is need for new, innovative products and packages.

Alcoholic beverages (spirits) from the U.S. enjoy a good market position and future growth is expected.

Petfood and tobacco have good market potential as well.

##### B. Products not present in significant quantities but which have good sales potential

High quality American beef could be sold in Hungary's better hotels and restaurants. Trade policy barriers have been successfully removed but the trade opportunities are not yet exploited. Seafood consumption of landlocked Hungary has started to grow, albeit from a low level.

##### C. Products not present because they face significant barriers

The biggest trade barrier for U.S. exports are the relatively high import tariffs vs. the preferential tariffs given to a number of "free trade" partners (EU, CEFTA, Israel, Turkey). California wine and Florida grapefruit are two products restricted by high import tariffs. New animal health regulations and the GMO content rules may jeopardize imports of soybean protein containing products, petfood and petfood ingredients.

#### V. Post Contact and Further Information

If you need more detailed information or assistance in doing business with Hungarian partners, contact the Office of Agricultural Affairs in Budapest:

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We also recommend that you use our website, <http://www.usembassy-vienna.at/usda>, or ask the following organizations for specific information:

Ministry of Agriculture and Regional Development

H-1055 Budapest  
Kossuth Lajos ter 11.  
Web Address: [Http://www.fvm.hu](http://www.fvm.hu)

International Affairs  
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Ministry of Economy

General Information: [www.gm.hu](http://www.gm.hu)

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